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Is **Fiorina's** business resume a good foundation for Senate bid?

MICHAEL **HILTZIK**

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The late cultural critic Neil Postman used to pose a simple question to gauge whether a new technology was worth the investment: "What is the problem," he would ask, "to which this is the solution?"

That question occurred to me last week as I contemplated the looming U.S. Senate candidacy of Carly **Fiorina**.

The Republican, who was ousted as chairwoman and chief executive of Hewlett-Packard Co. in 2005, took a first step in that direction last week by filing tax papers for a political fundraising committee. Her quarry in November 2010 will presumably be Barbara Boxer, a Democrat in her third Senate term.

Fiorina hasn't yet said anything specific of her goals in this race -- her spokeswoman told me she's still doing "due diligence to see if she wants to run or not." But judging from her numerous TV appearances and op-ed essays, she offers standard GOP fare, with a few inconsistencies thrown in.

For example, she thinks chief executives of companies that accepted federal bailout money should resign, but she objects that the Obama White House forcibly bounced Rick Wagoner as chairman of General Motors Corp.

She's also against government limits on executive pay (her kiss-off from HP brought her more than \$40 million in severance and other compensation).

Having recently undergone treatment for breast cancer, she wrote in an op-ed piece in July that California should maintain its "commitments" to its "cancer-fighting community."

As befits a candidate for an office with the power to mandate but no responsibility for administration, she didn't specify how much the state should spend on this worthy goal, where the money should go, or what other priorities should make way for the one she chose to support.

Since **Fiorina** has no political experience -- and on the evidence of her career at HP and her mixed performance as an advisor to the John McCain presidential campaign, not the greatest of political skills -- it looks like her pitch will be heavily based on her business background. Now is as good a time as any to review that career. **Fiorina** began her tenure as CEO of Hewlett-Packard with tremendous éclat. She was recruited in July 1999 at the age of 44 from telecommunications company Lucent Technologies Inc., where she was known as a bold manager unafraid to face down the old-boys' network of engineers.

That enchanted the board of HP, a historic Silicon Valley company that had been rotting from the inside. Dell was eroding its PC business and Lexmark its signature printer business. Looming over everything as king of the high-tech hill was IBM.

The first female CEO of a Fortune 20 company, the charismatic **Fiorina** thrilled HP's huge workforce by combining "the aspirational rhetoric of the New Economy with a keen eye for HP's long-neglected historical strengths," as the author George Anders wrote in 2003.

She scored bonus points with the HP faithful by launching a renovation of the Palo Alto garage where Bill Hewlett and David Packard founded the company in 1939.

The honeymoon didn't last. As I observed following her ouster, **Fiorina** was the antithesis of HP's self-effacing founders. She was caught up in her own mythology and enveloped herself in clouds of McKinsey & Co. consultants. Her slashing of 10,000 employees during the 2000 high-tech crash dimmed her appeal to the rank and file, and when her quarterly financial projections proved consistently over-optimistic, she lost credibility on Wall Street too.

Her 2002 acquisition of the stagnating computer maker Compaq represented a doubling down of HP's bet on the low-margin PC market. It also provoked a ferocious battle with some of the founders' children, a mortifying and very un-HP development.

Nor did the deal do much to fire up HP. Its shares kept lagging the Nasdaq index and barely kept pace with the S&P 500 index. Amid widening disaffection with her management, the board sacked her in February 2005. The bottom line: HP shares declined about 60% during her tenure.

Fiorina's memoir, "Tough Choices," hit the bookstores 20 months later. That may seem like an eternity to someone anxious to move on to a new act, but a tad rushed as introspective stock-takings go. Anyway, it was time enough for her to sharpen the barbs for her adversaries at HP.

Indeed, the book is shot through with episodes in which **Fiorina** describes herself being brow-beaten by board members into taking some ill-advised action, then accepts pro-forma blame. ("I acquiesced," she writes of one director's demand. "It was a mistake and it was mine.")

That's having things both ways -- gallantly accepting responsibility for a blunder, but pinning the guilt on others.

Fiorina's successor at HP, Mark Hurd, is the un-Carly in the same sense that she was the un-Bill and David. Recruited from NCR Corp., he's completely lacking in her brand of fabulousness but makes up for it with what associates say is an intimidating command of financial data and company minutiae.

My guess is that Hurd won't be writing a personal memoir any time soon, and if he ever does it will be indescribably boring. On the plus side, Hurd's HP is regarded today as perhaps the nation's premier computer maker and a contender in the growing market for IT services. On his watch, its shares have more than doubled in price, handily outstripping the Nasdaq and S&P.

Fiorina contends that Hurd could not have succeeded had she not laid the groundwork. I leave it to you fair-minded readers to decide whether that's so.

There's no denying that **Fiorina**'s HP board was a dysfunctional gang of egotists, but Hurd initially had to deal with the same people and survived, even navigating his way through a scandal involving the directors' investigation of boardroom leaks. She couldn't handle the board, and he did.

So what does all this tell us? From a financial or strategic standpoint, **Fiorina**'s tenure at HP isn't well-regarded, except by herself. It didn't feature many new ideas, and when conditions demanded political agility, as in her relations with the board, she didn't have it.

But she's good at keeping herself the center of attention -- in a half-hour speech at Stanford in 2001, Anders relates, she used the word "I" more than 100 times. She may help Republicans appeal to intelligent voters who think there are too many Democrats in the Senate and are looking for a fresh face who's not nearly as loopy as Sarah Palin and way more articulate.

Will Californians consider her an upgrade from Boxer? We'll see. But the rarest quality in Congress is statesmanship. The first test of whether **Fiorina** has that to offer will be whether she makes the forthcoming race about us, rather than herself.

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PHOTO: CARLY **FIORINA**: The ousted Hewlett-Packard chief may vie for Sen. Barbara Boxer's seat in 2010.; PHOTOGRAPHER: Paul Sancya Associated Press

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GOLDEN STATE; Restoring HP to Its Original Condition

Michael **Hiltzik**

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Stumbling corporations trying to regain their footing often turn to their past: They invite a retired chairman to resume the reins, reissue a vintage product or christen a factory after a revered founder.

Something like that is undoubtedly behind Hewlett-Packard Co.'s renovation of the rented Palo Alto garage in which its founders, William R. Hewlett and David Packard, assembled HP's first product, an audio oscillator, in 1939.

HP purchased the legendary property at 367 Addison Ave. in 2000 and launched a project to restore it to its 1939 condition last year. On Tuesday, the company held a ribbon-cutting ceremony to mark its completion. The corporate archivist, Anna Mancini, has been giving interviews on the rehab for several months, and a documentary video is posted on the HP website. Except for a few tours this weekend, however, the property won't be open to the public. (It's on a residential street.)

For HP, this project is loaded with subtext. Although the renovation began under former Chairwoman and Chief Executive Carly **Fiorina**, it's hard to avoid feeling that Tuesday's ceremony was designed partially to leave behind the **Fiorina** era, which began with great fanfare in 1999 and ended with her ignominious ouster in February, and to certify the succession as CEO of the rather less exhaustingly glamorous Mark Hurd.

Under **Fiorina**, HP's very survival came into question, as did its devotion to the core principles codified by Packard in his 1995 memoirs as "the HP Way." In a nutshell, the HP Way exalted teamwork, individual initiative and employee dignity. Its corollaries included rock-ribbed integrity, corporate social responsibility and a reliance on innovative engineering.

The company's diverse product lines started with industrial instrumentation and included such inventions as the first hand-held scientific calculator, the HP-35, which rendered the slide rule obsolete overnight. It entered the computer business with only equivocal success, but it's made a mint in printers and imaging.

That success in printers, however, is a mixed blessing.

The category, which includes consumables like ink and toner, has accounted for less than one-third of HP's sales in recent years but nearly 70% of its operating earnings.

Yet the market's growth is slowing, even as lower-priced competitors flood the supply chain.

Meanwhile, third-party suppliers are hacking away at HP's franchise in ink cartridges.

As for the PC, it's a commodity product in which innovation today comes mainly from software -- not one of HP's traditional strengths.

Nevertheless, **Fiorina** doubled down on the PC bet through her controversial, polarizing and ultimately pointless 2002 acquisition of Compaq Computer Corp.

Fiorina was the antithesis of HP's self-effacing, pragmatic founders. She paid lip service to the HP Way, but employees came to doubt that she truly internalized it.

She expanded the corporate jet fleet and seemed to trail clouds of consultants wherever she went.

Her predecessors believed in precise measurement and rigorous financial accuracy; she delivered wildly optimistic growth forecasts that wrecked HP's reputation on Wall Street.

By the time she was forced to lay off more than 10,000 workers in the teeth of the 2000 high-tech crash, she had lost credibility with the rank and file, too.

Yet the founders had never ruled out harsh prescriptions for corporate survival like layoffs, wage cuts or divestitures.

It's part of HP lore that the founders averted a 10% layoff during a 1970 downturn by asking every employee to work nine days out of 10 for six months; but it's generally overlooked that, as Packard observed in his book, this short-term tactic didn't mean HP was committed to "providing absolute tenure for our people." Indeed, in the early '90s HP stringently downsized, mostly through buyouts and early retirements similar to those imposed at other corporations.

Fiorina's layoffs, while certainly larger and possibly harsher than those that came before, were a response to a dramatically changed marketplace and perhaps weren't as much of a violation of the HP Way as her detractors suggested. (Packard died in 1996 and Hewlett in 2001.)

Hurd, a former CEO of NCR Corp., has now inherited the task of setting the company firmly back on the HP Way. He began his tenure with a record round of 15,300 layoffs, but paired that with bonuses for the survivors to shore up morale. He also sheltered the company's \$3.5-billion research and development operation from the cuts.

Financial results are looking up. Profits improved across the board in the fourth quarter ended Oct. 31, with even the long-suffering personal computer segment showing an improved operating margin of 2.8%. (Printing and imaging was still the margin champ, at 13.2%.) Under Hurd, HP shares, which lost roughly half their value under **Fiorina**, have advanced nearly 50% from the trough.

Watching this company's progress is sure to be a fascinating exercise. HP operates in several businesses where differentiating oneself is difficult and margins are narrowing.

But the company is one of high tech's sterling names and retains a reputation for quality; as I've written before, my house is filled with HP products, including a 12-year-old laser printer that churns out flawless prints for less than a penny per page.

If renovating an ancient garage signals the company's modern revitalization, that can only be a good thing.

Golden State appears every Monday and Thursday. You can reach Michael **Hiltzik** at golden.state@latimes.com and view his weblog at latimes.com/goldenstateblog.

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Michael Hiltzik / GOLDEN STATE; Looking Back, Fiorina Was Stuck in the 1960s

Michael Hiltzik

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I was contemplating last week's ouster of Carly Fiorina as chairman and chief executive of Hewlett-Packard Co., while my HP desktop personal computer booted up and my HP laptop recharged from the wall socket, and the following thought occurred to me: Why is HP still in the PC business?

This is not an idle question. The profit margin on HP's personal computers is close to zero despite its ranking as No. 2 in sales, after Dell Inc. The main reason is that its PCs are, inside the box, virtually identical to everyone else's. Consumers today choose a PC by price, the same way they pick a private-label cola. (I certainly did.)

The commoditization of computing has only picked up speed with the spread of broadband Internet connections because much more of what we do with computers is driven by the network, not by the resources inside the desktop box.

That's largely why the boom in computing power, which

fueled the industry's growth in the late 1990s, has stagnated. With the exception of hard-core gamers, anyone can get all the computer he or she needs for a few hundred bucks; two of the PCs in my home were hand-built by my kids, and for 99.9% of what we use them for, their performance is indistinguishable from that of the HP on my desk.

Fiorina was intent on building up (or rather, shoring up) HP's personal computer business because she felt that consumers and businesses would be miserable unless each piece of their information technology network bore the same nameplate. As modern strategies go, this one-stop shopping is very 1960s. Back then, every component of a technology system had to be the same brand because every individual provider designed their hardware and software as a closed system, incompatible with anyone else's products.

But broadly speaking, that hasn't been the case for at least two decades, ever since the integrated circuit and IBM Corp.'s PC brought standardization to computing. Huge corporate clients may still prefer to deal with a single vendor because they value consistent servicing, but most other enterprises and consumers are looking for price and performance, the nameplate be damned.

One would think that this lesson had become ingrained in HP's DNA, for it inherited two companies that had been overrun by the trend. Digital Equipment Corp., which once dominated the minicomputer business, couldn't adjust to the PC age and got acquired for its technology by Compaq Computer Corp. in 1998. Compaq, which sold its PCs through retailers, couldn't adjust to the build-to-suit, mail-order sales model pioneered by Dell. Left spavined by competition as it was forced to sell mostly me-too personal computers and even high-end servers, it merged with HP in 2002.

Fiorina boasted of HP's superior innovation, even though that's an empty claim in a technologically mature industry. "If you are a technology company, you must innovate," she told my colleague Terrill Yue Jones last month, thus proving she had completed her transformation from master salesperson to smoke-blowing machine.

The fact is that HP technology is all but invisible in some of its product lines. Determined to move into the incredibly competitive business of consumer electronics, the company started marketing Apple Computer Inc.'s iPod -- identical to the original article except for an "HP" stamped on the case -- as the "Apple® iPod by HP." (That narrowly beats out "Los Angeles Angels of Anaheim" as dumbest moniker ever.)

Fiorina's big consumer idea was a hybrid computer/home-theater-in-a-box. But it looks like a showcase of everyone else's innovation -- not HP's. The operating system of the z545 Digital Entertainment Center is the Windows XP media center edition, a product of Microsoft Corp.; it uses a Pentium chip, a product of Intel Corp.; and its music file storage and retrieval platform is iTunes, a product of Apple.

Beyond those elements, the z545 bundles together a TiVo-style personal video recorder, a DVD/CD recorder and player, two TV tuners ("Record up to two TV channels simultaneously!"), two hard drives totaling 360 gigabytes in capacity and some other hardware.

Out of curiosity, I spent a few minutes on the Web to see what I'd pay for all these components separately, without the assistance of HP's innovative brain trust. The bill came to a little more than \$900. HP sells the thing for \$1,899.99, which puts the implicit value of having one remote control to operate a "sleek, black brushed aluminum" housing that "blends with your home theater equipment" at \$1,000.

As the man said, you pays your money and you takes your choice.

The z545 has received very high marks from reviewers at high-tech fan magazines such as PC Magazine, which said that considering its laundry list of features, "\$2,000 doesn't seem unreasonable at all." Two questions: Is the market for it big enough to make HP some money? And how long will it be before either Sony Corp. or Matsushita Electric Industrial Co.'s Panasonic unit brings out its own sleek, black-brushed aluminum boxes? (Several specialty electronics firms are already in the market.)

Digital entertainment products may get commoditized even faster than the PC, marking yet another business in which HP will be an also-ran.

When a hardware category becomes so thoroughly standardized and margins shrink, any company burdened with HP's overhead usually heads for the hills.

IBM last year announced it was dumping its PC business on a Chinese company for \$1.25 billion. HP, by contrast, still says it has no plans to restructure its product lines, an astonishing sign of devotion to a failed strategy.

One is tempted to think that statement is merely a way of waiting a decent interval before throwing **Fiorina**'s business model over the side after her. If it isn't, maybe it should be.

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Golden State appears every Monday and Thursday. You can reach Michael **Hiltzik** at golden.state@latimes.com and read his previous columns at latimes.com/hiltzik.

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